

2600



Director of Central Intelligence

NATIONAL INTELLIGENCE DAILY

Saturday, 24 August 1991



Approved for Release
Date JUN 1990

Top Secret

24 August 1991

490

Warning Page Deleted
B-3

~~Top Secret~~ b3

Contents

	USSR: Situation Report	1
	: Republics' Independence Drives Accelerate	4
	[REDACTED]	5
	Yugoslavia: Situation Report	6
	Cambodia: Peace Talks Resume Next Week	7
Notes	Lebanon: New Friction in South	8
	France: Mitterrand Under Fire	8
	El Salvador: Army Launches Major Operations	9
	South Africa: National Party Preparing for Talks	9
	China: [REDACTED]	10
	[REDACTED]	10
In Brief		11
Special Analyses	USSR: New Balance of Power in Foreign Policy	12
	Iran: Discontent Over Economic Conditions Growing	14

b1, b3

b1, b3

~~Top Secret~~ b3

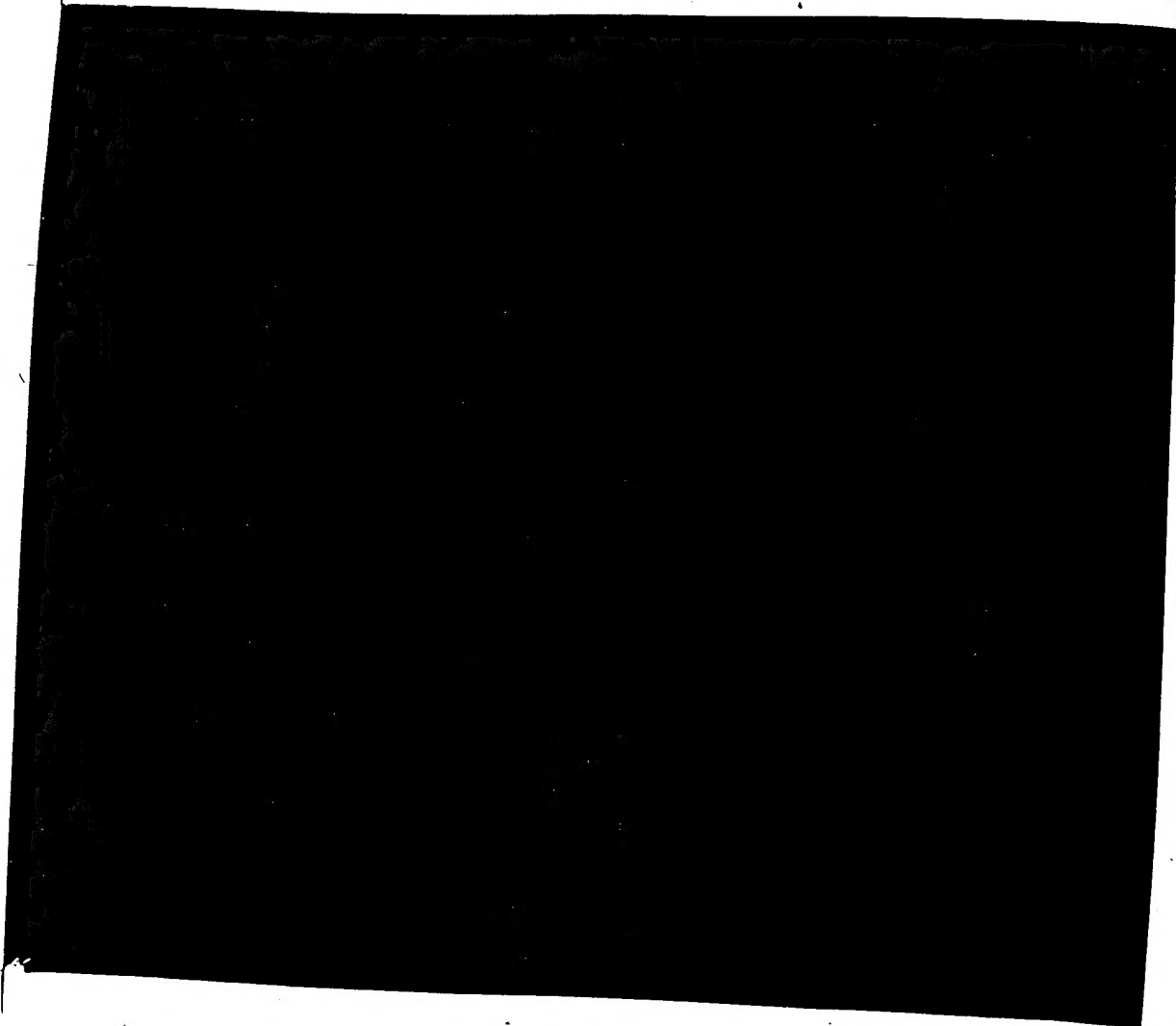
2 August 1991

2603

b3

~~Top Secret~~

b1, b3



~~Top Secret~~

24 August 1991

b3

2604

~~Top Secret~~ 63

~~NOFORN-NOCONTRACT~~

USSR:

Situation Report

Yel'tsin showed his dominance yesterday by controlling appointments to the security ministries and by pushing Gorbachev toward a thorough housecleaning. 63

Yel'tsin on Top

Gorbachev yesterday appeared to be acceding to Yel'tsin's predominant role. When Gorbachev addressed the Russian legislature, after meetings with Yel'tsin and then with the Russian President and eight other republic leaders, Yel'tsin clearly ran the show. He controlled the agenda and gave Gorbachev stage directions. Russian deputies alternately applauded and badgered the Soviet President from the floor. Gorbachev pledged to issue a decree approving all the decrees Yel'tsin issued during the crisis. In addition, he announced an agreement with Yel'tsin that in case either was incapacitated, he would be replaced by the other. Gorbachev expressed reservations, however, about Yel'tsin's steps to root the Communist Party out of Russian institutions and said that there should not be a witch hunt. 63

Yel'tsin is the main political force shaping policy in the USSR. Gorbachev has accepted both a coalition government that eventually may involve a joint center-republic executive body and personnel changes that put reformers in charge of the center's key institutions, concessions that suggest he realizes he can retain a role only by cooperating with Yel'tsin in transferring power to the republics and by implementing major reforms. In coming days, however, there will be pressure for much greater transformations, including republic demands for greater powers under the union treaty and for the removal of the Communist Party from state, security, and economic structures nationwide. Gorbachev's reluctance to help hasten the party's decline shows that he does not yet fully understand the public's demands or the inevitability of dramatic changes. 63

Personnel Changes

Gorbachev said yesterday the entire Cabinet of Ministers would have to resign. He said he had discussed new appointments with Yel'tsin, and the two already had agreed on new leaders for the Ministry of Defense, the KGB, and the MVD. Other announced changes include the dismissal of Foreign Minister Aleksandr Bessmertnykh and USSR Supreme Soviet Chairman Anatoliy Luk'yanov and the appointment of army Gen. Vladimir Lobov as Chief of the General Staff. 63

continued

~~Top Secret~~ 63

2 August 1991

2605

~~Top Secret~~ b3

Communist Party Tottering Across USSR

After sealing Communist Party Central Committee headquarters, police seized the headquarters of the Moscow party organization and impounded documents, which will be scrutinized for evidence of party complicity in the coup attempt. The leaders of the Kazakh, Uzbek, and Moldovan Communist parties quit the union party Politburo yesterday, and Politburo members Alfred Rubiks, Yuriy Prokofyev, and Oleg Shenin were arrested. The military, the KGB, and other key national organizations officially disbanded their party cells, while *Pravda* severed ties to the party leadership. New Defense Minister Shaposhnikov has announced his immediate resignation from the party and has ordered the General Staff to abolish all political organs in the military. With Gorbachev looking on, Yel'tsin signed a decree suspending all Communist Party activity throughout Russia pending an investigation of the coup. In an effort to shore up the situation, party leaders issued disclaimers of union party involvement in the coup, and Gorbachev warned the Russian legislature against fomenting anti-Communist hysteria.

The party is now without a newspaper, its headquarters has been seized, it is without funds, and the general populace hates it. An investigation is certain to reveal significant party complicity in the coup attempt, which will lead to the arrests of more party figures and accelerate its decline. Further party defections and protests are likely throughout the country. Defections will hit the hardest in the provinces, the last remaining bastion of party influence. These developments will force Gorbachev to renounce the party or risk ceding much of his remaining legitimacy to Yel'tsin and others.

~~Top Secret~~ b3

24 August 1991

~~Top Secret~~

The announcements yesterday are only the tip of the iceberg. Some ministries may be eliminated as their functions transfer to the republics, and the remaining ones face further purging. The appointment of a new prime minister will be critical. In response to questioning at the Russian Parliament yesterday Gorbachev seemed to agree that the post should go to a representative of Russia, but the failure of Gorbachev and republic leaders to agree on a candidate suggests the matter remains controversial.

Yel'tsin yesterday temporarily suspended the publication of six hardliner newspapers, including *Pravda*, and fired the general director of TASS and the head of the Novosti news agency. TASS journalists met and promised to reform the agency and become a truly independent press. The acting central media chief yesterday halted the activities of all political parties in the official Soviet broadcasting company.

The public has become so disgusted with these hardline newspapers that they probably face imminent bankruptcy in any case.

Yel'tsin Grabs for Control of Russian Economy

Yel'tsin has moved quickly to further weaken central control over Russia's economy, issuing decrees that call for the transfer of most union property and enterprises to republic jurisdiction by yearend. The decrees also call for Russian jurisdiction over the all-union supply organization, which still controls most wholesale distribution, the creation of a Russian gold reserve and diamond and hard currency funds, and sets up a customs service. Yel'tsin also has issued a decree that empowers him to appoint and dismiss ministers and administrative heads throughout the republic and that specifically dismisses eight executive committee chairmen for the regions of Nizhni Novgorod, Ryazan, Tambov, Tula, Ulyanovsk, Lipetsk, Amur, and Vladimir.

Yel'tsin is taking advantage of the postcoup power vacuum to grab authority he has been seeking in union treaty negotiations. In strengthening executive power, Yel'tsin hopes to speed implementation of political and economic reforms that have been blocked by locally elected councils dominated by hardliners. Although Yel'tsin probably believes that immediate structural changes are needed to ensure compliance with economic directives, this new structure could crush fragile, emerging markets and stifle economic reforms.

continued

~~Top Secret~~

August 1991

2607

~~Top Secret~~ b3

USSR: Rising Tide of Anti-Communism Outside Russia

Latvia: party banned, headquarters seized, bank accounts frozen ... leader Alfred Rubiks arrested ... party members supporting coup being fired.

Lithuania: previous ban on party made more specific ... Vilnius headquarters seized, party leaders flee republic ... parliament authorizes seizure of other party property, demands party hand over files ... Lenin statue in Vilnius dismantled.

Estonia: party banned from workplaces ... Lenin statue toppled.

Ukraine: party headquarters in L'vov, in western Ukraine, blockaded by crowds ... some Rukh nationalists will demand ban of party and nationalization of assets ... republic internal affairs ministry announces support for departization, urges Supreme Soviet to press law before emergency session of parliament today.

Moldova: President bans party from factories, state agencies ... party's first secretary resigns from USSR Politburo ... presidium of Parliament passed ruling calling for party activities to be banned and property to be nationalized.

Georgia: President Gamsakhurdiya echoes calls by others in republic to prosecute party members who supported coup, nationalize party property.

Kazakhstan: political parties banned from law-enforcement, security agencies ... paid party members prohibited from government jobs ... Kazakh party to leave CPSU.

Kirghiziya: Central Committee building, Lenin museum nationalized ... leader of Kirghiz party prohibited from presidential cabinet ... group of Kirghiz party members demanding resignation of party's top leaders.

Tajikistan: bans party at MVD, Justice Ministry ... allows government workers to continue political work after hours, outside of work.

Armenia: party property nationalized last April ... republic Communist party leader claimed to have disregarded instructions from CPSU Central Committee during coup ... attempt to retain credibility.

Uzbekistan: hardline president Krimov resigned from CPSU politburo in attempt to distance himself from coup plotters.

Belorussia, Azerbaijan, Turkmeniya: no action reported against party.

~~Top Secret~~ b3

24 August 1991

Azerbaijan Powder Keg

At least 50 demonstrators protesting the Azerbaijan leadership's procoup position were arrested by republic interior ministry (MVD) troops in Baku yesterday. [REDACTED] and several were injured. The headquarters building of the proindependence Azeri People's Front was occupied by forces loyal to the republic's Communist regime. [REDACTED]

Azeri nationalists probably will unseat Mutalibov and the centrally installed Communist leadership. Even if members of the regime remove him and try to portray themselves as reform Communists, they probably will be forced to give way to nationalists who are committed to greater sovereignty. If Mutalibov tries to hang on through repressive measures, the center will no longer assist him; his own security services, so effective against Armenians, may be less willing to attack fellow Azeris. [REDACTED]

Shakeup in Foreign Relations

President Gorbachev said yesterday he had fired Foreign Minister Bessmertnykh for his failure to oppose the coup. Bessmertnykh claimed he had declined the Emergency Committee's invitation to join, adding that former KGB Chief Kryuchkov had wanted a "liberal" on the committee. [REDACTED]

Growing criticism of the extent to which senior Foreign Ministry officials supported the Emergency Committee or remained passive suggests they face an extensive purge. A shakeup of the Ministry could rid it of a number of officials, including Rogachev and possibly First Deputy Foreign Minister Kvitsinskiy, who have wielded significant influence over Soviet policy in key regions. The Foreign Economics Ministry faces a similar shakeup. [REDACTED]

~~Top Secret~~

24 August 1991

~~Top Secret~~ 63

USSR:

Republics' Independence Drives Accelerate

Estonia, Latvia, Lithuania, and Georgia, emboldened by the collapse of central authority, are likely to push for immediate independence; Armenia and Moldova will proceed more slowly. 63

The Baltic republics have moved with particular speed against the remaining vestiges of central control; the Latvians and Lithuanians have taken control of their republics' Communist Party headquarters. The Estonians are asserting their authority over major center-controlled enterprises and have demanded that all KGB personnel be withdrawn from the republic. 63
Meanwhile, Moldovan President Snegur told a rally earlier this week that he was considering discussion of Moldovan independence at the next legislative session. Armenia is planning to go ahead with its 21 September independence referendum, but President Ter-Petrosyan said this week that republic officials may rethink certain aspects of their independence strategy, perhaps with an eye to shortening the secession process. 63

63
The dramatic shift in power at the center and the ascendancy of Yel'tsin, who has proved sympathetic to republic independence movements, offer the breakaway republics the opportunity to leave the union more quickly on more favorable terms than would have been possible. Russia will be the critical player, either by acting as an intermediary in independence negotiations with the center or by pushing for a union treaty that greatly eases the terms of secession. With changeovers at the Interior and Defense Ministries and the KGB, the center will be much less able to suppress republic independence movements, and harassment of the Baltic republics is likely to end. 63

If granted independence, the Baltic republics could function as independent states within a few months, although finalizing arrangements on such issues as Soviet troop stationing will take longer. Georgia probably will also claim independence as soon as the center allows it. Territorial disputes and deteriorating economies, however, may lead Armenia and Moldova to hesitate, hoping that Yel'tsin will use his increased power to achieve a union treaty that creates the much looser confederation they might prefer. 63

~~Top Secret~~ 63

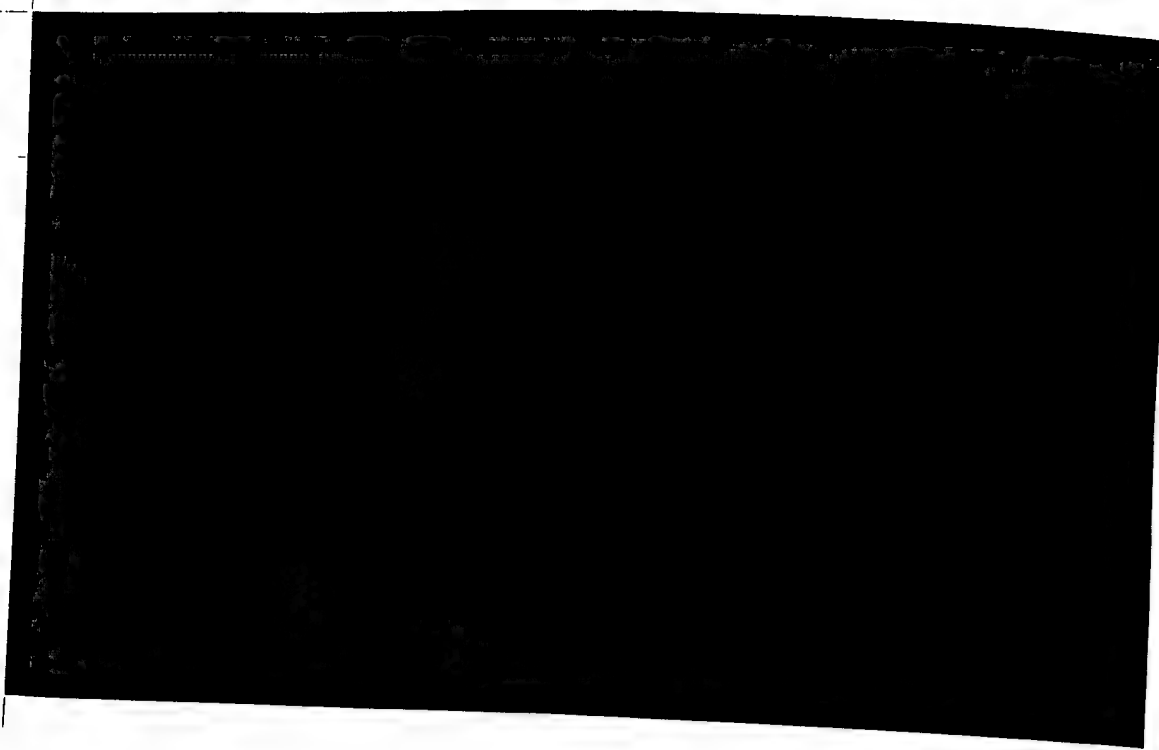
24 August 1991

26 10

~~Top Secret~~

b3

b1, b3



~~Top Secret~~

b3

24 August 1991

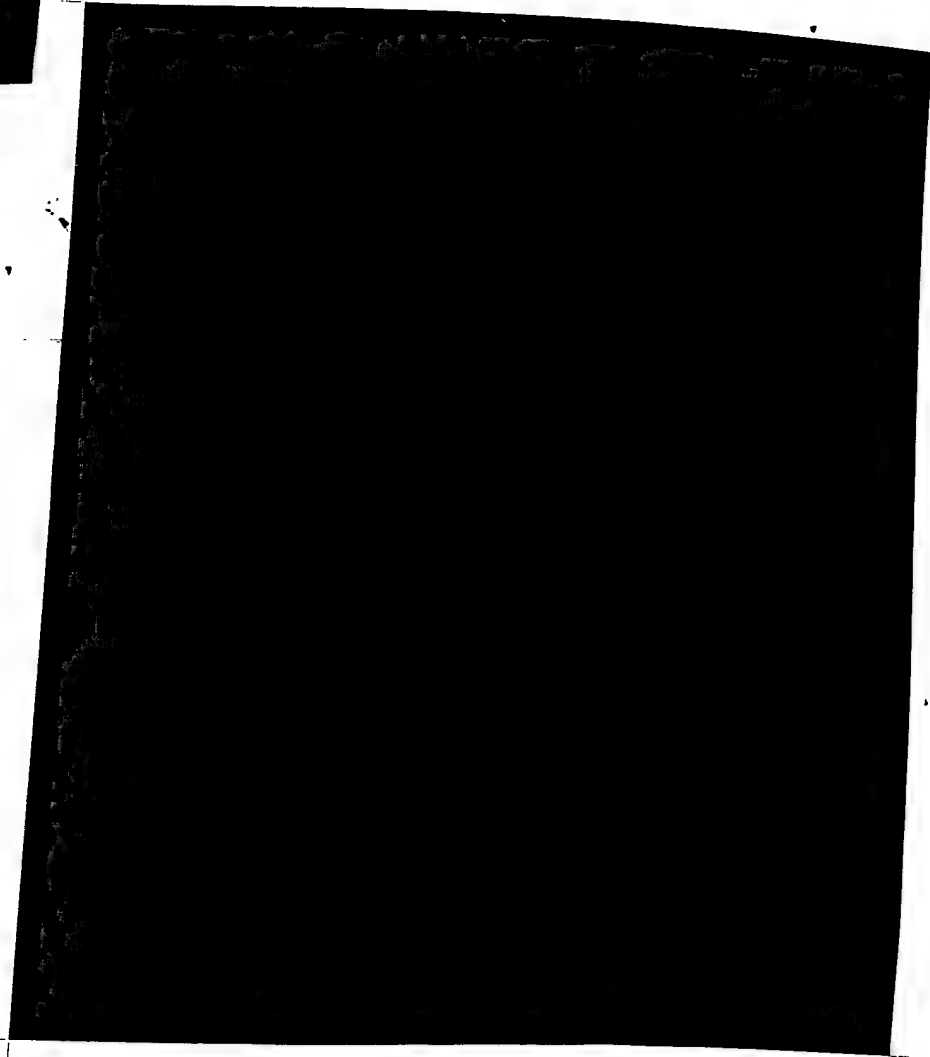
2611

b3

~~Top Secret~~

b1

b3



[Redacted]

~~Top Secret~~

24 August 1991

b3

26 12

~~Top Secret~~

YUGOSLAVIA:

Situation Report

Croatia is threatening to broaden its conflict with Serbia, and Serbian leader Milosevic is tightening his political grip at home.

Tudjman Issues Ultimatum

Croatian President Tudjman on Thursday issued an ultimatum to the collective Presidency threatening to take "all necessary steps" to defend his republic unless military operations against it end by 31 August. Fighting between Croat and Serb forces continued yesterday in Slavonia and south of Zagreb.

Tudjman does not command the military strength to enforce any ultimatum against the Serbs or the Army, but his desperation may lead him to approve attacks that would broaden the conflict. Army and Serb forces almost certainly would retaliate forcefully and may move to consolidate their gains in Croatia before Tudjman's deadline.

Milosevic Tightens Hold

Battlefield success probably has emboldened Milosevic to retract concessions he was compelled to grant to the Serb media after demonstrations last March in Belgrade.

Austrian Export Guarantees to Slovenia

Vienna next month will extend export guarantees to Slovenia, as Germany did two weeks ago.

Vienna and Bonn also may renew efforts to develop a European consensus for recognizing Slovenia and possibly Croatia, particularly if the Baltic republics now move quickly toward independence and win international recognition.

~~Top Secret~~

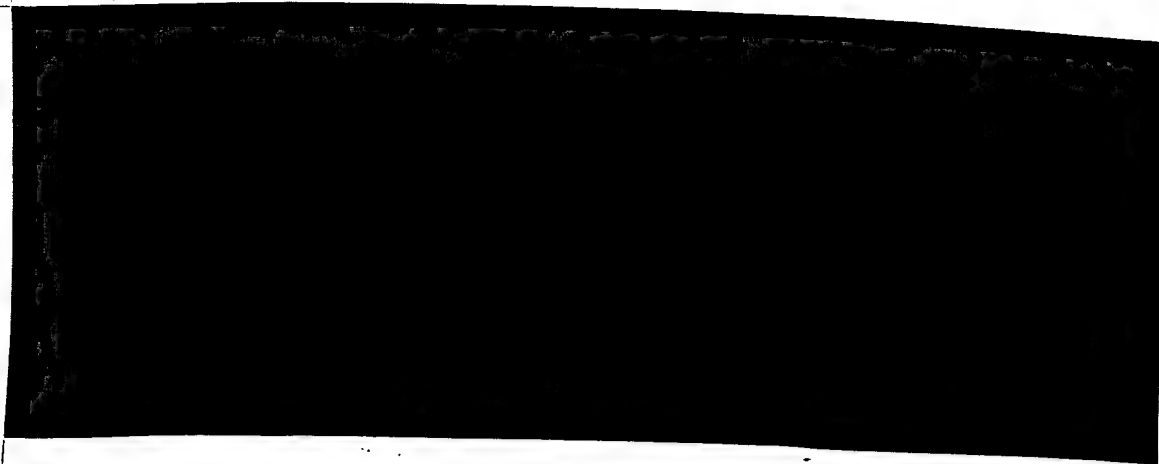
26 August 1991

26 13

~~Top Secret~~

b3

b1, b3



~~Top Secret~~

b3

24 August 1991

26 14

~~Top Secret~~

CAMBODIA:

Peace Talks Resume Next Week

The meeting of Cambodia's Supreme National Council next week in Thailand appears likely to tackle the two toughest of the issues that block a settlement

Wednesday asked the UN to deploy 200 observers provisionally until a decision on a larger UN presence is made

Prince Sihanouk on

b1
b3

b-3
b-1,
b-3

b1
b3

~~Top Secret~~

24 August 1991

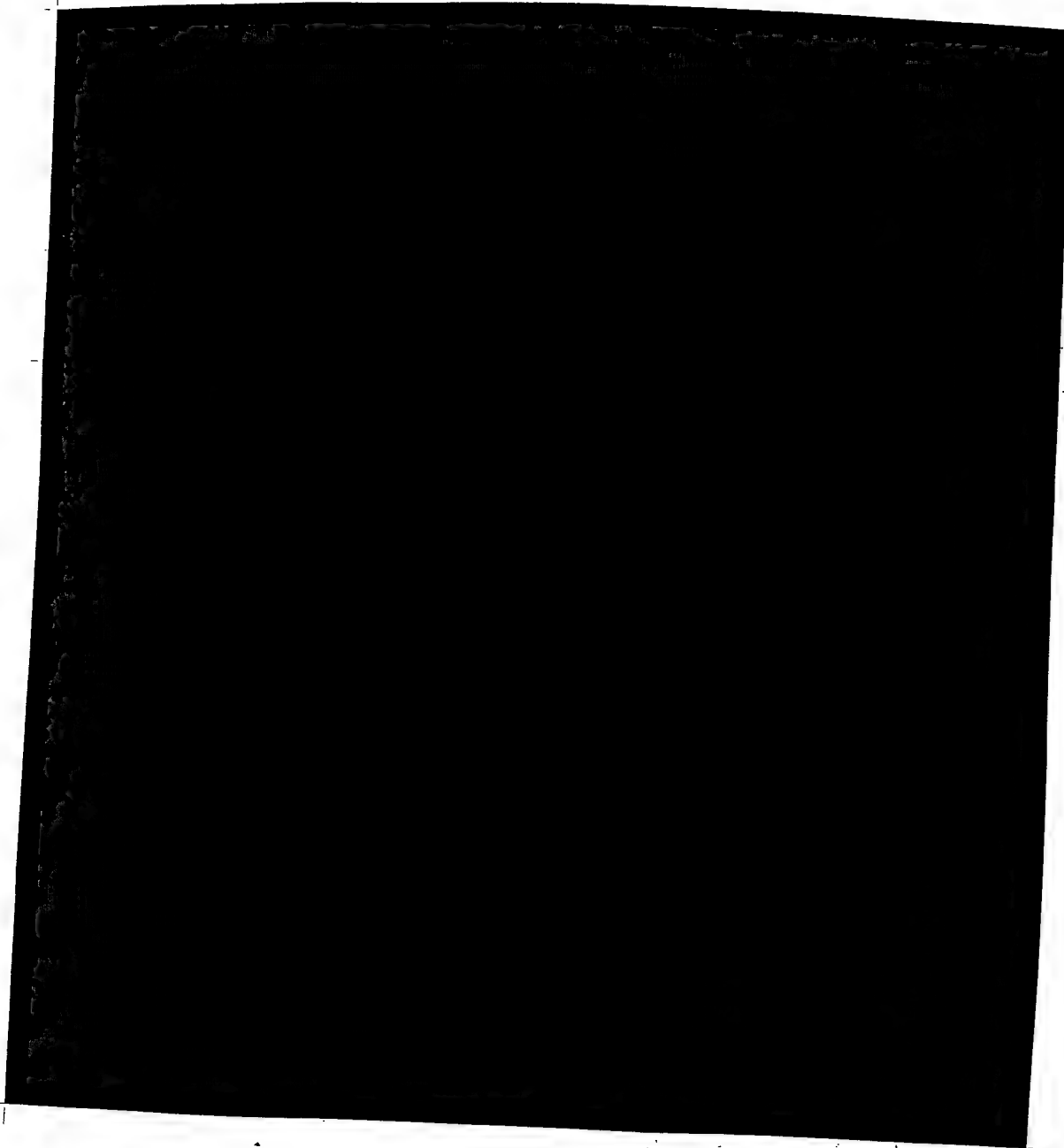
63

26 15

~~Top Secret~~

b3

b1, b3



~~Top Secret~~

b3

24 August 1991

26 16

~~Top Secret~~ b3

LEBANON: New Friction in South

The Israeli-backed Army of South Lebanon yesterday demanded that residents evacuate three Shia villages in areas controlled by the Lebanese Army north of the Israeli security zone, [REDACTED] b3

[REDACTED] The ASL and Lebanese Army troops deployed nearby exchanged fire; both forces also clashed with Islamic resistance guerrillas in separate incidents this week. [REDACTED] b1, b3

[REDACTED] Although the Lebanese Government does not want to risk Israeli involvement, it cannot ignore the ASL's provocation for fear that its own efforts to regain credibility will suffer. Inaction against the ASL would increase Muslim complaints, especially since the Army began door-to-door searches for weapons last Thursday in areas including the Palestinian camps. Beirut almost certainly will try to use diplomatic contacts to calm the situation but will not hesitate to respond militarily to further ASL affronts. The Lebanese Government hopes to begin shutting down Hizballah facilities this fall but probably will need a formal go-ahead from Syria. [REDACTED] b3

FRANCE: Mitterrand Under Fire

President Mitterrand is being heavily criticized for his hesitant reaction to the Soviet coup, and his ruling Socialists could suffer in regional elections next year as a result. He appeared willing to accept the coup Monday but then toughened his stance Wednesday when the coup unraveled. The right is also arguing that uncertainties in the USSR require that cuts in the defense budget be restored. Although Defense Minister Joxe had taken a similar position before the coup, leftwing Socialists want more social spending instead. [REDACTED] b3

[REDACTED] Mitterrand now appears vulnerable on foreign policy, an area in which he has excelled. Despite a flurry of diplomatic activity meant to regain the initiative, his sagging popularity could further dim the Socialists' electoral prospects in the coming regional elections and the legislative election in 1993. [REDACTED] b1 b3

The right's repeated criticism of Mitterrand's performance and internal Socialist divisions over budget priorities will dash the party's hopes of presenting a facade of unity for the elections. [REDACTED] b3

~~Top Secret~~ b3

8
27 August 1991

~~Top Secret~~**EL SALVADOR: Army Launches Major Operations**

Government forces have begun large-scale sweep operations throughout the FMLN insurgents' base areas in northern El Salvador in the past week. The Army has two of its five elite counterinsurgency battalions in the rebel stronghold of northern Morazan Department, where it has never before mounted such large operations, and has deployed the other three to other FMLN bastions. In response, the guerrillas fired an unidentified surface-to-air missile at a ground attack aircraft on Tuesday. The FMLN also claims Army units have clashed with civilians from a resettlement camp in Morazan. San Salvador police uncovered two weapons caches this week that included six SAMs and some 200,000 rounds of ammunition.

A sustained Army offensive would severely disrupt the guerrillas' ability to use their bases as logistic corridors and staging areas. The government operations and arms seizures could also jeopardize FMLN plans for attacks in other parts of the country, particularly San Salvador. The rebels' first use of a SAM in nearly six months suggests the military is exerting pressure in areas the FMLN considers critical. Insurgent claims of military attacks on civilians and other human rights abuses are likely to increase as the armed forces operate near isolated, guerrilla-dominated resettlement camps.

SOUTH AFRICA: National Party Preparing for Talks

President de Klerk has called an extraordinary congress of his ruling National Party for 4 September to reveal detailed proposals for a new South African constitution to be negotiated with black leaders. He will use the congress to press party leaders to endorse the proposals, which must be approved by the four provincial branches. The party also has named a leading advocate of negotiations to the new position of secretary general and has charged him with preparing for talks with black leaders and with building party membership among nonwhites.

De Klerk's decision to call a special congress, the fifth since the party took power in 1948, indicates growing confidence that the talks process is approaching a watershed; until now, Pretoria has avoided revealing its constitutional proposals. The congress is set for a week before Pretoria, the ANC, and Inkatha meet to sign a negotiated peace plan to end township violence and appears timed for maximum impact on the negotiations. Government and ANC officials appear increasingly optimistic that the peace accord and Pretoria's recent approval of a UN role in repatriating thousands of exiles have cleared the way for a multiparty conference on constitutional principles and on the ANC's demand for an interim government.

~~Top Secret~~

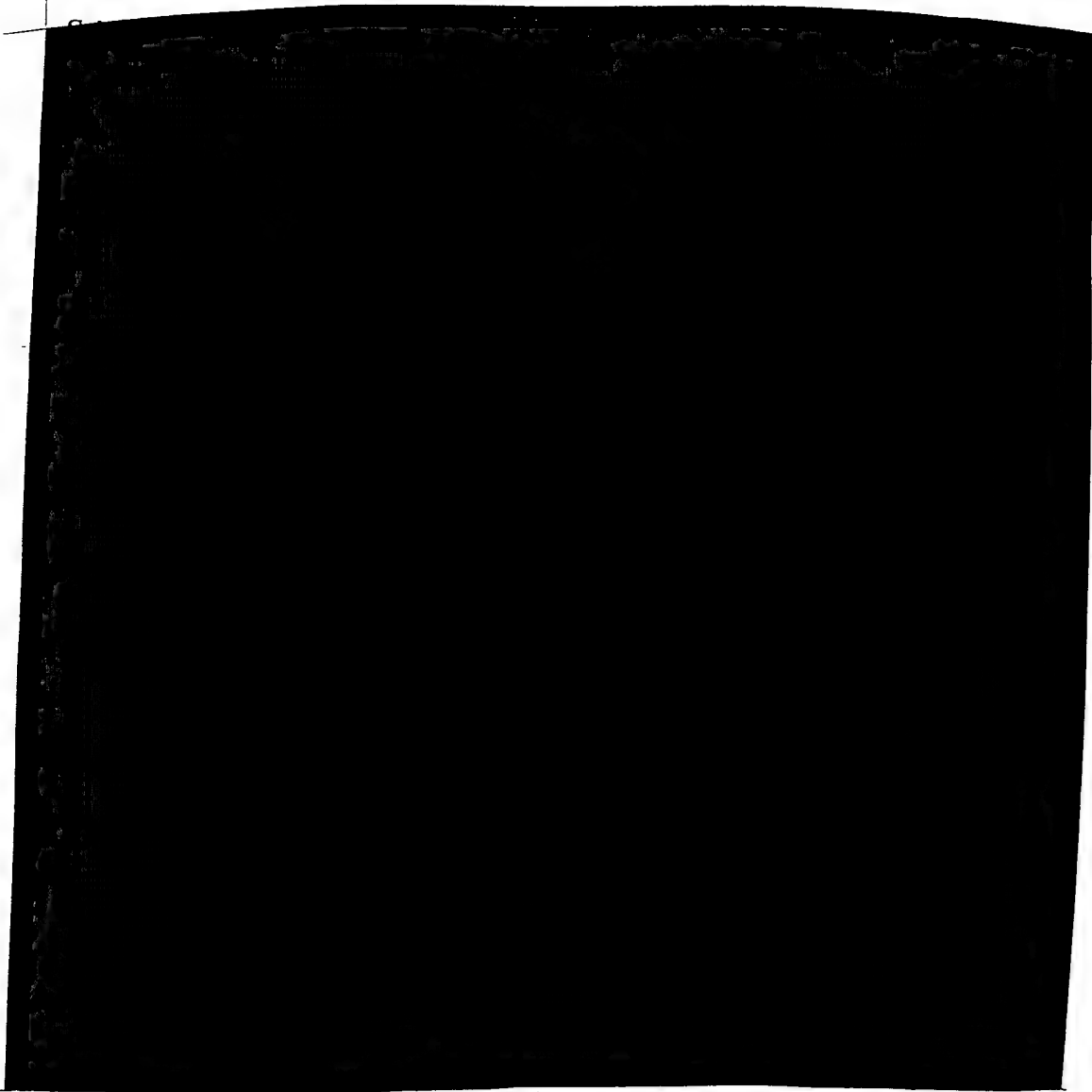
August 1991

26 17

~~Top Secret~~

b3

b1, b3



~~Top Secret~~

b3

24 August 1991

26 19

~~Top Secret~~

b3

b1, b3

~~Top Secret~~

26 August 1991

b3

~~Top Secret~~

b-3

CHINA: US Exports Losing Share

Although China's imports grew at nearly a 16-percent annual rate through June, US suppliers are losing ground because of Beijing's import barriers and growing foreign competition. In the first six months of this year, Chinese imports from the US were only 6 percent more than in the same period last year, and Chinese statistics show the US share of China's market actually declined despite the increased demand for imports. Japanese and ASEAN exports increased 25 to 30 percent; Taiwan and South Korea made even more rapid inroads, albeit from smaller bases.

Some key US exports—chemicals, timber, and plastics—are picking up because of China's rapid industrial growth. Because US sales are concentrated in a few product lines, however, import restrictions have disproportionately hampered other important US exports. Sales to China of US power-generating equipment through June, for example, were nearly 23 percent less than in the same period last year. The price advantage that has helped US primary goods exports grow so far this year, moreover, could be eroded if the US dollar continues to strengthen. China's preference for importing components and semifinished goods used in exports will continue to favor suppliers from Taiwan, Hong Kong, and South Korea. Japanese suppliers have reversed a five-year slide in market share, in part on the strength of Tokyo's help to Beijing in overcoming economic and financial sanctions.

b-3

b-3

b-3

b-1,

b-3

~~Top Secret~~

24 August 1991

b-3

262.1

~~Top Secret~~

b3

b1
b3

~~Top Secret~~

b3

24 August 1991

2622

~~Top Secret~~

In Brief

Asia

- South Korea accepted North Korea's proposal to delay prime ministers meeting until late October ... P'yongyang may need time to consider Seoul's willingness to accept North's nonaggression declaration.
- Taiwan suspended commercial flights to Vietnam yesterday, two days after making first ones in 16 years ... China probably pressing Hanoi to limit exchanges ... bilateral trade, Taiwan's direct investment probably will still grow.

Middle East

Africa

- Zairian opposition rejoined stalled national conference yesterday ... insisting some 600 extra delegates brought in by regime be ousted ... if compromise not reached, opposition will again walk out; probably call for general strike.
- Togo's political reform conference yesterday stripped President Eyadema of most powers ... radical opposition still hoping to remove him.

Europe

- Albania's three main opposition parties on Thursday jointly demanded accelerated reform ... such cooperation has been rare, failure of Soviet coup adding impetus ... continued unity could help election prospects next year.

Americas

~~Top Secret~~

24 August 1991

2623

~~Top Secret~~ b3

Special Analysis

USSR:

New Balance of Power in Foreign Policy

Although Soviet foreign policy will no longer be constrained by the need to appease hardliners, the center must now accept increased input from the republics, primarily Russia. The emerging leadership will focus in coming months on domestic political issues, but economic imperatives and pressure from the republics will encourage more rapid movement on such issues as arms control. b3

The search for economic assistance will dominate the agendas of the center and the republics and will encourage greater cooperation with the West and other potential donors. The emerging leadership will expect the triumph of reform to make the West more forthcoming on economic aid and on the integration of the USSR into international economic institutions. Despite the new regime's recognition that an apparently coherent economic policy will encourage greater Western aid and investment, competing republic demands for control over aid distribution may complicate this effort. b3

Security Policy

The greatest effect of the failed coup is likely to be on security policy. The preponderant traditionalist influence in arms control decisionmaking that had constrained Gorbachev's ambitious agenda will be sharply reduced. Pressure from the republics will reinforce the economic imperative to accelerate cuts in military spending and almost certainly will lead to further force reductions and new measures to reassure the West about Soviet military intentions and encourage it to provide more aid.

b1, b3

continued

~~Top Secret~~ b3

27 August 1991

~~Top Secret~~ b3

The diminished influence of traditionalists concerned about damaged Soviet prestige and security will also facilitate resolution of negotiations with Germany and the East European countries. The Soviets probably will more readily back away from demands for restrictive security provisions in new bilateral treaties with their former Warsaw Pact allies. They are likely to be more amenable to compromise on issues such as the schedule of their withdrawal from Poland and German compensation issues; they will continue to bargain hard, however, to ease the serious economic and social problems associated with the absorption of returning Soviet forces, most of which are to go to Russia, Belorussia, and Ukraine. b3

Regional Issues

The demise of the traditionalists and pressure from the republics will encourage regional policies that promote cooperation with the West and that further reduce the burden of commitments to Third World states. The Soviets will continue to seek an active role in the Middle East peace process and to back efforts to control the flow of arms to the region. The postcoup leadership probably will move toward restoring ties to Israel, but it will offer reassurances of support for Arab positions in the peace conference. b3

The Soviets probably will be cooler toward countries that voiced support for the coup and clients who remained silent. Relations with China probably will deteriorate as Gorbachev and other Soviet officials recognize that Beijing privately welcomed the coup, and the removal of the hardliners will weaken ties to Cuba, Iraq, and Afghanistan; the Soviets probably will be more willing to compromise on the timing of Afghan President Najibullah's departure and to cut assistance to Kabul and Havana. b3

The strengthening of reformers will increase the tilt toward countries with regional political and economic influence, at the expense of traditional clients. As the USSR seeks more aid from South Korea and Japan, its support for North Korea almost certainly will decline more rapidly, and it may be more prepared to make concessions on the Northern Territories, but Russia will demand that any settlement reflect its interests. b3

A Caveat

The postcoup leadership will accelerate positive trends in Gorbachev's foreign policy, but widespread personnel changes in the Foreign Ministry and elsewhere may paralyze policy formulation for a time. The loss of expertise, the emergence of conflicting voices, and leadership preoccupation with domestic matters may make it difficult to reach any but the most urgent decisions. b3

~~Top Secret~~ b3

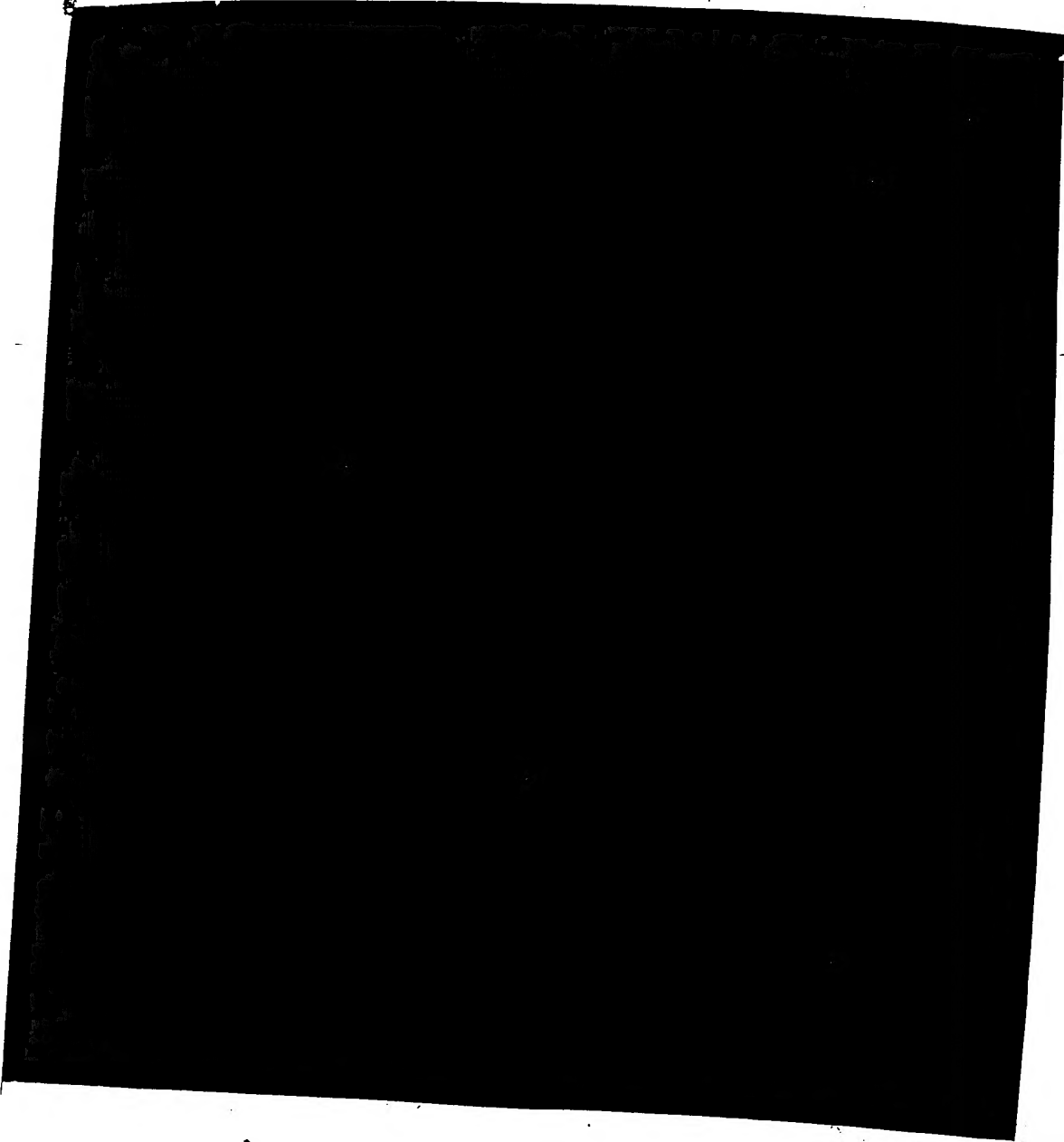
24 August 1991

2625

~~Top Secret~~

b3

b3
b1



~~Top Secret~~

b3

24 August 1991

~~Top Secret~~

Special Analysis

IRAN: Discontent Over Economic Conditions Growing

Popular discontent over President Rafsanjani's economic reform program is mounting and has produced demonstrations and riots in the past month. Rafsanjani, however, probably believes continued reform is a key to reviving the economy and, ultimately, to retaining his political standing.

Last year Rafsanjani announced sweeping economic reforms and outlined a number of initiatives in the five-year economic development plan. His proposals include unifying multiple exchange rates and devaluing the rial; selling a number of state companies, most of which are losing money; opening up the economy to foreign investment and other foreign financing; and removing subsidies on most basic commodities and reducing transfers to municipalities in order to help reduce the mounting government budget deficit. Iran's rapidly growing population, however, will put increased demands on the government to provide basic services, complicating efforts to restrain the deficit.

Reaction to Reform

Dissatisfaction with the reform effort almost certainly is behind recent arson, bombings, and protests in Tehran, Esfahan, Tabriz, and Rasht. Many Iranians say recent price hikes on basic commodities, combined with the rising cost of housing and other basic services, are making it hard to make ends meet.

Rafsanjani's radical political opponents are trying to exploit growing discontent by attacking his inability to improve living conditions. The hardliners are not likely to derail the reform program, however, because many of the policies they advocate, including strict adherence to Islamic dress and restricted foreign economic participation, are widely unpopular.

continued

~~Top Secret~~

24 August 1991

~~Top Secret~~ 63

Rough Road Ahead

61
63

Fear of further unrest and criticism by political opponents probably will constrain the economic reform effort in the next several months as Rafsanjani tries to adjust the pace and scope of implementation. Iran's complex economic problems cannot be cured quickly or painlessly; Rafsanjani must balance the costs and benefits of economic restructuring, particularly the impact on the public and foreign investors. Rapid reform could ignite major disturbances and political maneuvering against him, but proceeding too slowly could lead to a further deterioration in living conditions.

[REDACTED]

Rafsanjani's economic development plan indicates he probably believes pushing ahead with economic reform is a key to the revival of the economy and, ultimately, to his political standing. He is likely to expand his media campaign to counter radical criticism of his economic policies and to prepare the public for further reform by cautioning that the road to recovery is long. Rafsanjani will try to curb inflation by cracking down on "economic saboteurs," especially merchants who raise prices "excessively." He probably will intensify efforts to secure aid, particularly World Bank and IMF loans.

[REDACTED] 63

~~Top Secret~~ 63

August 1991